expenses are generally assigned to Plant Specific Operations Expenses.[265] Accordingly, many if not most of the "billing expenses" incurred by those particular billing functions are not pertinent because the rules exclude them from OB&C Expense.

177. The accuracy of the interstate share of billed toll messages, as determined under the former rules, affects the accuracy of exogenous cost calculations because that interstate share is used to separate a portion of OB&C Expense, as discussed above. When that interstate share is understated, as is the case for both GTE and Pacific Bell, the interstate assignment of OB&C Expense is too low. An understatement of the interstate assignment prior to the rule change unnecessarily raises the exogenous cost effect of replacing that low interstate assignment with the 33 percent interstate assignment prescribed under the new rules. For example, increasing the interstate allocation from 7 percent to 33 percent would cause a greater increase in interstate expenses than a change from 25 percent to 33 percent. Consequently, the errors of GTE and Pacific Bell in counting billed toll messages result in an overstatement of their exogenous cost changes.

(2) Revised Message Toll Counts

178. In order to correct the interstate allocation of message toll billing expense submitted by GTE and Pacific Bell, we must have reasonably accurate counts of 1996 intrastate and interstate toll messages, including those associated with invoice-ready billing. The Bureau directed both carriers to submit these data.[266] Pacific Bell submitted new toll message counts for 1996, which raised the interstate share of billed toll messages from the 4 percent share used in its tariff filing to 14 percent. Similarly, GTE submitted revised data that increased its interstate share of billed toll messages from 9 percent to 22 percent.[267] Data submitted by GTE and Pacific Bell for 1990 through 1996, however, exhibit a number of anomalies that cast doubt on the completeness of their revised billed toll message counts.

(a) Comparison of Revised Counts and Counts of Other RBOCs

179. One anomaly is that the interstate shares of these revised counts are far below those reported by all RBOCs, *i.e.*, all other RBOCs except Ameritech which is excluded

[265] *See* 47 C.F.R. §§ 36.111 and 36.310.

[266] *1997 Designation Order* at ¶ 51(f).

[267] Letter from W. Scott Randolph, Director-Regulatory Matter, GTE, to William F. Caton, FCC, at 3, dated September 26, 1997. This figure is partially based on intrastate and interstate invoice-ready message counts provided in the letter. GTE seeks confidential treatment of these message counts.

because its data are seriously deficient.[268] Whereas GTE's and Pacific Bell's revised data show their 1996 interstate shares of billed toll messages are 22 percent and 14 percent, respectively, the other RBOCs (with the exception of Ameritech) have interstate shares that are 49 percent on average and, individually, are at least 45 percent.[269] Hence, all of these other RBOCs have interstate shares that are double that of GTE and triple that of Pacific Bell.

(b) Impact of California's Unique Calling Pattern

180. The Bureau directed GTE and Pacific Bell to explain why such large differences exist between their interstate shares of billed toll messages and those of the other RBOCs.[270] Pacific Bell states that these differences are partly explained by the historically high volumes of intraLATA toll occurring in California, which increases the intrastate share of billed toll messages.[271] Pacific Bell does not quantify, however, the extent to which these differences can be explained by California's unique toll calling patterns. Nor does GTE quantify such an effect with respect to its own operations in California. We find that such large differences cannot be adequately explained by the relatively high number of intrastate toll calls that GTE and Pacific Bell encounter in their California operations. Traffic data submitted by Pacific Bell show that, in 1996, the interstate share of its completed originating toll calls was 35.5 percent--two and one-half times the 14 percent interstate share calculated using the invoice-ready messages submitted. Similarly, 1996 traffic data submitted by GTE show that the interstate share of its completed originating toll calls (for all study areas including California) is 49 percent--more than twice the 22 percent interstate share calculated

[268] Ameritech's message counts, like its user counts discussed *supra* at note 68, exhibit numerous anomalies during the period 1990-1996. It appears likely that Ameritech's interstate shares of toll messages and billing revenues should be positively related. Ameritech's data shows that these interstate shares were negatively related, however, in 1991, 1994, and 1996. In 1994, for example, its interstate share of toll messages decreased 30 percent while its interstate share of billing revenues increased. Moreover, in 1992, its interstate share of toll messages remained constant (at 35.6 percent) while its interstate share of billing revenues decreased. FCC ARMIS Report 43-04 (1991-1996), Rows 4031 and 7252 for Ameritech. Although these problems in Ameritech's reported message counts seemed to cast doubt on the accuracy of its 1997 tariff filing, we determined that Ameritech did not overstate its OB&C Expense exogenous cost increase, either because it made offsetting errors elsewhere in its calculations or because it substituted unreported allocation factors for the faulty allocation factors reported in its 1996 ARMIS Report. We therefore find no reason to add Ameritech to this part of the investigation addressing exogenous cost changes.

[269] FCC ARMIS Report 43-04 (1996) Row 7252, for Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST.

[270] We note, however, that the Bureau referred to even larger differences that existed before GTE and Pacific Bell increased their interstate shares of billed toll messages by including the message counts associated with invoice-ready billing. *See Designation Order* at ¶ 55.

[271] Pacific Bell Direct Case at 52.

using the invoice-ready messages submitted.[272]

(c) Impact of IXCs' Take-back

181. GTE and Pacific Bell also suggest that the differences between their interstate shares of billed toll messages are largely due to the IXCs' take-back of all billing functions for their high-volume business and residential customers.[273] GTE and Pacific Bell do not quantify, however, the effect of this development on billed toll messages. In particular, they do not show that such a take-back significantly reduces the number of toll messages appearing on their customer bills. When Pacific Bell's count of billed toll messages for 1996 (including both IXC messages and Pacific Bell messages) is revised to include the missing invoice-ready messages, this toll message count is 10 percent greater than the count that Pacific Bell reported for 1990.[274] Similarly, after revising GTE's 1996 billed toll messages to include invoice-ready messages provided for that year, we find that GTE's billed toll messages increases substantially between 1990 and 1996.[275] This apparent growth in both Pacific's and GTE's billed toll messages is inconsistent with the results that would be expected if take-backs had greatly reduced billed IXC toll messages. These data suggest that, for the most part, take-backs took the form of a partial resumption of billing functions, which caused IXC toll messages to continue to appear on Pacific Bell and GTE bills.

182. Further, the claim that IXC take-backs substantially reduce the interstate shares of billed toll messages is contradicted, at least for certain take-backs occurring in 1995, by Pacific Bell's statement that the take-backs in that year took the form of a migration to invoice-ready billing service. Specifically, in explaining why its interstate share of billed toll messages declined by 66 percent in that year,[276] Pacific Bell states that this decline was due to AT&T's migration from message-ready to invoice-ready billing service.[277] Because Pacific

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[272] FCC ARMIS Report 43-08 (1996), Table IV, columns (ed), (ee), and (eg), for GTE and Pacific Bell. The percentage of interstate originating toll calls completed is calculated as follows from the 43-08. The numerator is column (ee), InterLATA Toll Calls Completed, from Table IV - Telephone Calls. The denominator is column (ed), IntraLATA Toll Calls Completed, plus column (eg), Total InterLATA Toll Calls Completed. Column (ed) may include a small amount of IntraLATA interstate corridor traffic.

[273] Pacific Bell Direct Case at 52; GTE Direct Case at 30.

[274] FCC ARMIS Report 43-04 (1990 and 1996) , Row 7252, for Pacific Bell; Pacific Bell Direct Case at Attachment OBC-4.

[275] FCC ARMIS Report 43-04 (1990 and 1996), Row 7252, for GTE. Letter from W. Scott Randolph, Director-Regulatory Matter, GTE, to William F. Caton, FCC, at 3, dated September 26, 1997.

[276] *1997 Designation Order* at ¶ 56.

[277] Pacific Bell Direct Case at 53.

Bell prints invoice-ready messages on its customer bills,[278] that response appears to reveal that the decline was due not to the IXCs' resumption of all billing functions but, rather, to Pacific Bell's decision to exclude invoice-ready messages from message counts.

(d) Comparison of Billed Messages and Billing Revenues

183. If the IXC take-backs had caused substantial reductions in billed toll messages, as is suggested, the take-backs would have greatly reduced interstate billed toll messages, while also reducing interstate billing service revenues. It therefore seems unlikely that these two factors would move in opposite directions, as sometimes occurs in the data of GTE and Pacific Bell for the 1990-1996 period. For this reason, the Bureau required GTE to explain why the interstate share of billed toll messages *declined* by 52 percent in calendar year 1995, while the interstate share of Carrier Billing and Collection Revenues *increased*.[279] GTE claims there is no correlation between these billed messages and billing revenues. The decline in the interstate share of billed toll messages, GTE explains, was primarily the result of the IXCs' take-back of billing and collection functions.[280] GTE contends that the message counts used in allocating message toll billing expense include "the billable, toll messages that appear on customer bills" and states that no toll message counts were excluded.[281] In response to further questions from Bureau staff, however, GTE concedes that it excluded invoice-ready messages when separating message toll billing expense, but included those messages when separating the associated revenues.[282]

184. We conclude that, excluding these invoice-ready messages from the interstate share of billed toll messages, demonstrates that the absence of a correlation between the interstate share of billed toll messages and the interstate share of billing revenues is partly, if not entirely, explained by the inconsistent methods GTE used in separating billing expenses and revenues. It nonetheless is unclear to what extent its counting error explains the absence of correlation between the interstate share of billed toll messages and the interstate share of billing revenues because GTE does not quantify the shortfall in interstate toll message counts. Although the Bureau directed GTE to identify all excluded message counts such as the

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[278] Pacific Bell Direct Case at 48; SBC letter filed July 3, 1997, at 2.

[279] *1997 Designation Order* at ¶ 56. The Bureau obtained these data from FCC ARMIS Report 43-04 (1995), Rows 4031 and 7252, for GTE.

[280] GTE Direct Case at 30.

[281] GTE Direct Case at 23.

[282] Letter from W. Scott Randolph, Director-Regulatory Matter, GTE, to William F. Caton, FCC, at 4, dated September 18, 1997.

invoice-ready messages for 1994 and 1995, GTE's submissions do not contain these data.[283] Absent this information, we cannot determine what portion of the 52 percent decline is explained by the unidentified invoice ready message counts.

185. Similarly, the Bureau required Pacific Bell to explain why its reported interstate share of billed messages declined by 66 percent between calendar years 1994 and 1995, while there was an increase in the share of Carrier Billing and Collection Revenues attributed to the billing of interstate calls.[284] As discussed above, Pacific Bell concedes that it excludes invoice-ready messages when separating message toll billing expense, but includes those messages when separating the associated revenues. Pacific Bell submitted interstate and intrastate invoice-ready message counts for 1996, but states that it is unable to determine the jurisdictional nature of invoice-ready message counts for any year during the period 1990-1995.[285] Hence, it does not meet the Bureau's requirement that such data also be provided for calendar years 1990-1995.[286]

186. In addition, the Bureau directed GTE to explain why it attributed only 8.7 percent of the 1996 toll message counts to interstate messages, while attributing 45 percent of Carrier Billing and Collection Revenues to the billing of interstate calls.[287] As explained above, the inclusion of missing interstate invoice-ready messages raises the interstate share of GTE's toll message counts to 22 percent,[288] a level that is still far below the 45 percent interstate assignment that GTE reports for billing revenues. Consequently, GTE's revision of its toll message counts still leaves a large gap between these two interstate shares that is not adequately explained. This large remaining difference strongly suggests that the revised interstate message toll count is still understated for 1996. Indeed, GTE's total message toll count (both intrastate and interstate) may be understated for that year. Although GTE claims that the IXCs' take-backs substantially reduced its billed toll messages during the 1990-1996 period, its revised unseparated message toll count for 1996 is well below the corresponding

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[283] *1997 Designation Order* at ¶ 51(f).

[284] *Id.* at ¶ 56. The Bureau obtained these data from FCC ARMIS Report 43-04 (1994-1995), Rows 4031 and 7252, for Pacific Bell.

[285] Pacific Bell Direct Case at Attachment OBC-4.

[286] *1997 Designation Order* at ¶ 51(f).

[287] *1997 Designation Order* at ¶ 56. The Bureau obtained these data from FCC ARMIS Report 43-04 (1996), Rows 4031 and 7252, for GTE.

[288] Letter from W. Scott Randolph, Director-Regulatory Matter, GTE, to William F. Caton, FCC, at 3, dated September 26, 1997.

count reported four years earlier for 1992 (1.502 billion).[289] Moreover, GTE subsequently revised that 1992 number to 1.454 billion, while cautioning that it excludes some study areas.[290]

187. Other data problems also cast doubt on the reliability of GTE's revised message counts. It is unclear, for example, whether invoice-ready messages are missing from the 1992 count because GTE does not provide invoice-ready messages counts for calendar years 1990-1995, despite the Bureau's requirement that it provide these data.[291] Moreover, GTE concedes that its 1993 message counts also are incorrect. Although GTE reports the 1992 and 1993 toll message counts in its ARMIS Report 43-04 as the allocation factors that were used in separating message toll billing expense, GTE states in its direct case that it used constant message counts from a prior year as the basis for separating this expense. GTE does not identify the prior year.[292]

(e) Counting Methodologies

188. Although the Bureau directed GTE to explain the assumptions and methodologies that were used to count billed toll messages,[293] GTE fails to provide an adequate explanation. GTE does not describe the methodology that was used to extract this information from its various billing systems. Moreover, GTE does not explain the frequency of message counts or the extent to which they are based on sampling. GTE does not explain, for example, when any of its message counts were performed for calendar years 1990-1994. GTE submits that the message counts for these years were measured in a time period that "was a representative prior period and differed between study areas and regions of the country."[294] GTE fails to define, however, "a representative period." It should be noted that for one study area, the same measurements apparently were used for five years. That is, GTE acknowledges that the 1995 counts for a Michigan study area are based on data "representative of 1991."[295] Moreover, in 1996, for all but one study area, GTE fails to measure message counts for its GTE Telephone Operating Companies (GTOC) and instead

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[289] FCC ARMIS Report 43-04 (1992) Row 7252, for GTE.

[290] GTE Direct Case at 22 and Exhibit C-2, pp. 9-10.

[291] *1997 Designation Order* at ¶ 51(f).

[292] GTE Direct Case at 23.

[293] *1997 Designation Order* at ¶ 51(e).

[294] GTE Direct Case at 22.

[295] GTE Direct Case at 22.

simply relies on its 1995 figures. For two of its GTE System Telephone Companies (Contel), GTE relies on 1995 figures rather than 1996 message counts. For the remaining Contel companies, GTE states that it updated the counts "to reflect the impact of the IXC take-back."[296] It is unclear whether these updates were derived from new message counts or, instead, from the application of various adjustment factors to the counts for prior years.

189. The Bureau directed GTE to explain why its interstate share of billed toll messages increased from approximately 17 percent to 37 percent between calendar years 1990 and 1992.[297] GTE asserts that this change was due to an expansion of its EAS areas, which apparently reduced the number of intrastate toll messages, thereby increasing the portion of toll messages attributed to interstate.[298] This assertion is unsupported, however, because GTE fails to identify the number of EAS service areas or the location of these areas. Moreover, GTE does not quantify the effect of that change on intrastate toll messages.

190. The Bureau also directed Pacific Bell to explain the assumptions and methodologies that it used in counting billed toll messages during the period 1990-1996.[299] As discussed earlier, Pacific Bell acknowledges that its message counts exclude billed toll messages associated with its invoice-ready billing service.[300] Pacific Bell submits that it obtained these message counts from its billing systems, which show not only the billed messages but also the jurisdictional nature of those messages.[301] The billed messages, Pacific Bell states, include toll messages together with non-toll messages such as nonrecurring charges, monthly charges, and charges for voice mail, paging, internet, and directory publishing services. Pacific Bell does not explain, however, the methodology that was used in counting the billed toll messages. Presumably, it used a software program to do the counting but it does not describe such a program. It does not explain, for example, how a program distinguished between billed toll messages (which must be included in the prescribed allocation factor) and non-toll messages (which must be excluded from that factor). No

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[296] GTE Direct Case at 22.

[297] *1997 Designation Order* at ¶ 56. The Bureau obtained these data from FCC ARMIS Report 43-04 (1990-92), Row 7252, for GTE.

[298] GTE Direct Case at 30.

[299] *1997 Designation Order* at ¶¶ 55-56.

[300] Pacific Bell Direct Case at 48.

[301] *Id.* at 46-47. Pacific Bell identifies the names of the billing systems used. It states that the message counts for toll messages billed on behalf of IXCs (interLATA messages) are obtained from the Flexible Account Billing System, which produces the bills that it sends to IXCs for billing and collection services. Pacific Bell states that it obtained the message counts for its own billed intraLATA toll messages from the Customer Record Information System since 1992 and from the MA9 Report prior to that year. *Id.*

explanation is provided as to how a program distinguished between billed toll messages that are associated with its invoice-ready billing service and those that are associated with other billing services.

191. Further, Pacific Bell does not explain whether the message counts in any year were based on a sample and, if so, how that sampling was done. Also unexplained is how frequently the message counts were updated. Pacific Bell seems to imply that message counts were performed at least annually, because it states that these counts vary year to year.[302] It does not state, however, whether any of these annual variations is due to annual updatings of message counts for the entire study area or only a portion of the study area. Nor does Pacific Bell state whether any of the annual variations is due not to new measurements but, rather, to the application of adjustment factors (based on various assumptions) to the prior year's message counts. It is unclear whether Pacific Bell made such adjustments in developing the message counts associated with billing services other than invoice-ready service. With regard to the message counts associated with invoice-ready service, however, Pacific Bell acknowledges that "some estimation techniques were used on the message counts" in order to estimate the interstate share of those messages.[303] This was necessary, Pacific Bell claims, because it has no readily available actual detail on the number of invoice-ready messages identified by jurisdiction before 1996.[304] Pacific Bell does not explain why that detail is sufficient for 1996 but not for prior years. We therefore find that Pacific Bell, like GTE, does not adequately explain the assumptions and methodologies used in developing interstate and intrastate toll message counts for calendar years 1990-1996.

(3) Prescription of Surrogate Allocation Factors

192. In light of the failure of GTE and Pacific Bell to support their revised message toll counts, we require them to reallocate Message Toll billing expense to the interstate jurisdiction using surrogate interstate allocation factors that we developed from their reported traffic data and from data submitted by comparable LECs. To estimate the interstate shares of Message Toll billing expense that GTE and Pacific Bell should have under the former separations rules, we adjusted their reported interstate shares of completed originating toll calls using an adjustment factor based on an RBOC average. In particular, we reduced those interstate shares by the average percentage by which the 1996 interstate billed message shares of other RBOCs (excluding Ameritech and Pacific Bell) are below their interstate shares for completed originating toll calls. It is reasonable to require GTE and Pacific Bell to adjust their message toll counts by the RBOC average because we would expect that their interstate

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[302] *Id.* at 51.

[303] *Id.* at 51.

[304] *Id.* at 47.

share of billed toll messages would have been similar to the other RBOCs had they counted all of their billed toll messages. We find this to be the case because GTE and Pacific Bell are similar in operating size to other RBOCs.[305]

193. We derived the surrogate allocation factor partly from the 1996 intrastate and interstate completed originating toll calls reported by GTE and Pacific Bell. GTE identified 49.0 percent of these toll calls as interstate and Pacific Bell identified 35.5 percent as interstate.[306] We recognize that the completed originating toll calls include calls completed by IXCs, which likely billed some portion of their toll calls on their own. If this were the case, the interstate share of these toll calls likely exceeds the interstate share of such calls that were billed by GTE and Pacific Bell. Consequently, we estimated the interstate shares of toll calls billed by GTE and Pacific Bell by making downward adjustments to their reported interstate shares of completed originating toll calls. Specifically, we reduced the 35.5 percent and 49.0 percent figures by 23.5 percent, the average percentage by which the 1996 interstate billed message shares of other RBOCs (excluding Ameritech and Pacific Telesis) are below their interstate shares for completed originating toll calls.[307] We believe that this 23.5 percent downward adjustment is reasonable not only because it is an average for the other RBOCs, but also because the variation in data for those carriers is not unreasonably large.[308] This adjustment results in interstate allocation factors of 37.5 percent for GTE and 27.2 percent for Pacific Bell. Accordingly, we direct GTE to correct its exogenous cost change by allocating 37.5 percent of the Message Toll portion of OB&C Expense to the interstate jurisdiction. We direct Pacific Bell to correct its exogenous cost change by allocating 27.2 percent of the

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[305] *See supra* at para. 145.

[306] FCC ARMIS Report 43-08 (1996), Table IV, columns (ed), (ee), and (eg), for GTE and Pacific Bell. For the specific calculation *see supra* at note 272.

[307] To obtain the 23.5 percent average for the five large ILECs, the interstate share of billed toll messages (ARMIS 43-04) for those carriers as a group was divided by the interstate share of completed originating toll calls (ARMIS 43-08), and this result was subtracted from one. FCC ARMIS Report 43-04 (1996), Row 7252 (col. b divided by col. d), for Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST. FCC ARMIS Report 43-08 (1996), Table IV, for Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST.

[308] The differences between the interstate share of billed toll messages and the interstate share of completed originating toll calls for the RBOCs ranged between 12 percent (U S WEST) and 33 (NYNEX) percent. To obtain the percent for each company, the interstate share of billed toll messages (ARMIS 43-04) for each company was divided by the interstate share of completed originating toll calls (ARMIS 43-08), and this result was subtracted from one. The range 12 to 33 percent seems reasonably small in comparison to Pacific Bell's differential of 60 percent between its interstate share of billed toll messages (14 percent) and its interstate share of completed originating toll call (35.5 percent). FCC ARMIS Report 43-04 (1996) Row 7252, for Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST. FCC ARMIS Report 43-08 (1996) Table IV, columns (ed), (ee), and (eg), for Bell Atlantic, BellSouth, NYNEX, Southwestern Bell, and U S WEST.

Message Toll portion of OB&C Expense to the interstate jurisdiction.

194. As explained above, we find that making a rate prescription on the basis of an industry average is consistent with our authority under Section 205(a) of the Communications Act because courts have consistently found in the Act a Congressional intent to grant us broad discretion in "selecting methods . . . to make and oversee rates," provided that we make a "reasonable selection of available alternatives" and prescribe rates that fall within a "zone of reasonableness."

195. We make this prescription after reviewing a "reasonable selection of available alternatives." We considered basing our prescription on the basis of message counts that these carriers reported for prior years. However, as noted above, neither GTE nor Pacific Bell provided data and accompanying support that would permit us to calculate their total billable toll message counts. For example, neither carrier provides the interstate message toll counts that were billed through invoice-ready billing in earlier years. As noted above, another problem, with regard to GTE, is that many of its smaller study areas did not file data in the first few ARMIS reporting years, making verification of the accuracy of prior years' data difficult.[309]

6. Apportionment of OB&C Expense Among Access Elements

196. Part 69 of the Commission's rules requires that the interstate Revenue Accounting Expense attributable to End User Common Line access billings shall be assigned to the Common Line element. Part 69 further requires that the remaining interstate Revenue Accounting Expenses that are not assigned to other access elements shall be assigned to the Billing and Collection category.[310] In the *1997 Designation Order*, the Bureau stated that GTE, Pacific Bell, and U S WEST may have miscalculated their proposed exogenous changes by incorrectly apportioning Revenue Accounting Expense among the Part 69 access elements and categories. The Bureau therefore required GTE, Pacific Bell, and U S WEST to provide work papers showing how they determined these expense assignments.[311] These carriers have satisfied this requirement. Based on our analysis of their work papers, we find they have allayed our concern.

7. Calculation of Exogenous Change In Interstate Expenses

197. There are several other factors that effect the magnitude of the companies'

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[309] *See supra* at para. 150.

[310] 47 C.F.R. § 69.407.

[311] *1997 Designation Order* at ¶ 52(b).

OB&C exogenous cost adjustments including: the base period used by the companies to calculate the adjustment; the request for recovery of expenses incurred prior to the adjustment; and the user counts reported for 1990, the year in which price cap indices were initialized. The base period proposed by the companies will affect the magnitude of the exogenous change because the year selected provides the data for the interstate assignment under the former rules. If the interstate assignment of OB&C expenses in the year selected is lower than in other years, the corresponding exogenous change will be higher.[312] The request for recovery of costs incurred prior to the effective date of the OB&C exogenous cost change will likewise increase the magnitude of the exogenous change. Finally, it is important to determine whether accurate user counts were used to separate OB&C expenses in 1990 and therefore whether the level of interstate OB&C Expense used for purposes of initializing price caps was accurate. If incorrect user counts were used, the interstate OB&C Expense embedded in the rates of price cap ILECs may be incorrect.

a. Base Period Used By GTE

198. In the *1997 Designation Order*, the Bureau required GTE to explain why it used the 12 months ending in June 1996, rather than calendar year 1996, for purposes of calculating the exogenous changes associated with the separations rule change for OB&C Expense. The Bureau also required GTE to calculate the exogenous change using calendar year 1996 data rather than the twelve months ended June 1996.[313]

(1) Discussion

199. We require GTE to use calendar year 1996 data for the purpose of calculating its OB&C exogenous cost change. GTE's decision to assign both the ARMIS reports and the exogenous cost calculations to the same staff members does not exempt it from our rules, which define the base period as the 12-month period ending six months prior to the effective date of annual price cap tariffs.[314] For the 1997 tariff period, that would be calendar year 1996. Accordingly, we order GTE to include in its compliance filing, calculations of its OB&C exogenous cost change using calendar year 1996 data.

b. Base Period Used by Pacific Bell

200. In the *1997 Designation Order*, the Bureau found that Pacific Bell may have overstated its exogenous cost changes by using the wrong base period. The Bureau required

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[312] See *supra* at para 169.

[313] *1997 Designation Order* at ¶¶ 52(b) and 58.

[314] 47 C.F.R. § 61.3(e).

Pacific Bell to explain why it used 1995 data rather than 1996 data for purposes of calculating the exogenous changes associated with the separations rule change for OB&C Expense.

(1) Discussion

201. As explained above, Section 61.3(e) defines the base period as the 12-month period ending 6 months prior to the effective date for the annual price cap tariffs. We therefore require Pacific Bell to use calendar year 1996 data, together with the modifications required herein, for purposes of calculating the exogenous change.

c. U S WEST Request for Retroactive Adjustment

202. The Bureau directed U S WEST to explain why it asserts that an OB&C exogenous adjustment of $845,145 is needed to recover additional interstate expenses incurred during the two-month period between May 1 and July 1, 1997.[315]

(1) Discussion

203. We conclude that U S WEST may not include in its 1997/1998 access rates its OB&C costs for May and June 1997. As a general principle, when a carrier files its annual access tariff with the Commission, it projects the dollar amount of its rates on a prospective basis for the next twelve-month period.[316] Any exogenous adjustments to the PCI for that 12 month period must be submitted as part of the price cap LEC's annual access tariff filing.[317] U S WEST's argument that it did not file in May, in contrast to other LECs, in order to spare the agency the administrative burden of its filing does not persuade us that we should take the unusual step of allowing recovery of these past costs. The Commission has recently ruled that LECs cannot recover amounts that they could have charged but failed to do so.[318] In the *800 Data Base Order*, the Commission relied on the Supreme Court decision *FPC v. Tennessee Gas Co.*, which held:

> The company having initially filed the rates and either collected an illegal return or failed to collect a sufficient one must, under the theory of the [Natural Gas] Act, shoulder the hazards incident to its actions including not only the refund of any illegal gain but also its losses where its filed rate is found to be

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[315] *1997 Designation Order* at ¶ 60.

[316] *See* 47 C.F.R. § 61.43.

[317] *See* 47. C.F.R. § 61.45(a).

[318] *In re 800 Data Base Access Tariffs and the 800 Service Management System Tariff and Provision of 800 Services*, Order on Reconsideration (rel. April 14, 1997) (*800 Data Base Order*).

inadequate.[319]

204. We believe that U S WEST could have recovered these costs by submitting an earlier tariff filing, as other LECs did. We conclude that it may not now make an exogenous adjustment in its annual access filing to recover 14 months of additional costs during the 1997-1998 tariff year. We, therefore, direct U S WEST to reduce its OB&C exogenous costs by $845,145.

d. Message Toll User Counts of U S WEST

205. In the *1997 Designation Order*, the Bureau directed U S WEST to provide corrected message toll user counts for calendar year 1990.[320] The Bureau observed that U S WEST's ARMIS figures for that year mistakenly show that message toll users constituted approximately 99 percent of the total number of billed users.[321] The Bureau directed U S WEST to explain whether it used these incorrect counts in calculating its interstate OB&C Expenses when initiating price caps.

206. In its direct case, U S WEST explains that, due to a clerical mistake, its 1990 user counts for ARMIS reporting purposes are in error.[322] As a result of the error, the counts represent a total of the user counts for the twelve-month period, rather than a representative average. U S WEST states that this ARMIS clerical mistake and did not flow through to the separations process and was, therefore, not used to assign costs in 1990 when U S WEST converted from cost of service to price cap regulation. We find that U S WEST's explanation is reasonable.[323]

8. Refunds

207. GTE, Pacific Bell, and U S WEST shall refund with simple interest, the

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[319] *FPC v. Tennessee Gas Co.*, 371 U.S. 145, 152-53 (1962). The Commission also stated that section 4(d) of the Natural Gas Act, 15 U.S.C. § 717(c) is similar to section 203(b) of the Communications Act, and that section 4(e) of the Natural Gas Act, 15 U.S.C. § 717 is similar to section 204(a) the Communications Act. *American Television Relay, Inc.*, 67 FCC.2d 703, 711 n.13 (1978).

[320] *1997 Designation Order* at ¶ 61.

[321] FCC ARMIS Report 43-04 (1990), Row 7241, for U S WEST.

[322] U S WEST Direct Case at 30.

[323] The Bureau directed U S WEST to correct the numbers reported in its 1990 FCC ARMIS 43-04. Letter from Fatina Franklin, Chief, Competitive Safeguards Branch, Accounting and Audits Division, Common Carrier Bureau of the FCC, to Mike Crumling of U S WEST, dated October 2, 1997.

difference between the rates charged to its customers for Other Billing and Collection and the rates required by this section. Interest shall be computed on the basis of interest rates specified by the United States Internal Revenue Service.

III. CASH WORKING CAPITAL FOR CERTAIN RATE OF RETURN CARRIERS

A. Background

208. We here consider issues relating to the 1997 access tariffs of certain rate-of-return LECs. One of the components of the interstate rate base is an allowance for cash working capital. LECs need this allowance to pay for the operating expenses that are incurred prior to the receipt of sales revenues. Generally, cash working capital is computed by determining the revenue lag and the expense lag and multiplying the difference by the carrier's average daily expenses. Revenue lag is the average number of days between the date a service is provided and the date associated revenues are collected. Expense lag is the average number of days between the date a service is provided and the date the expenses associated with the service are paid. The Commission's rules permit carriers to compute their cash working capital by using either a full lead-lag study, the "Simplified Formula Method," or the "Standard Allowance Method."[324] The Commission has previously recognized a 15-day net lag period as an acceptable standard for calculating cash working capital for Class B carriers.[325] Those carriers seeking to establish a longer net lag period must compute their cash working capital using either a full lead-lag study or the Simplified Formula Method.[326]

209. In the *1997 Suspension Order,* the Bureau suspended and initiated an

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[324] *See* 47 C.F.R. § 65.820(d).

[325] Amendment of Part 65 of The Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, Order on Reconsideration, 4 FCC Rcd 1697 (1989).

[326] *Id.* at 1698. Using the Standard Allowance Method, a carrier would apply the standard 15-day lead or lag to its cash operating expense to determine its cash working capital. Using the Simplified Formula Method, a carrier first computes its weighted average revenue lag days and weighted average expense lag days using the formula described in Section 65.820(e). Second, the carrier computes the weighted net lag days by deducting the weighted average expense lag days from the weighted average revenue lag days. Third, the carrier computes the percentage of a year represented by the weighted net lag days. Finally, the carrier computes its cash working capital by multiplying its interstate cash operating expenses by the percentage of a year represented by the weighted net lag days. *See* 47 C.F.R. § 65.820(e). In conducting a full lead-lag study, a carrier would look at all of its cash expenses and measure from the time the expenses are incurred to the time the expenses are paid. Similarly a carrier would look at all of its revenues and measure from the time service is provided to the time the revenues are received. The carrier would then net the expense and revenue lags to calculate the net composite revenue lag. To determine its cash working capital needs, the carrier would multiply the net revenue lag by the daily cash expenses.

investigation of the annual access tariffs of PRTC, Concord, and Chillicothe. The Bureau found that these LECs had not provided a sufficient explanation for their cash working capital net lag periods. Specifically, the Bureau found that these LECs either: (1) had not provided a lead-lag study and calculated a net lag period that appeared to exceed 15 days; or (2) had conducted a lead-lag study, but had calculated a net lag period significantly above the industry average.[327] In a separate order, the Bureau suspended and set for investigation the proposed cash working capital requirement of Roseville because it found that its proposed cash working capital calculations resulted in a net lag period that exceeded the industry average.[328]

210. In the *1997 Designation Order*, the Bureau found that although PRTC, Concord, and Chillicothe had submitted *ex parte* filings in support of their lead-lag studies, the material was insufficient to explain their proposed net lag periods.[329] The Bureau therefore required PRTC, Concord, Chillicothe, and Roseville to submit the lead-lag studies used to determine their proposed net lag periods.[330]

B. Concord

211. We require Concord to use the standard 15-day allowance to calculate its cash working capital, rather than its proposed composite net lag of 46.61 days, because it failed to submit a lead-lag study based on current data or to justify its use of a study based on older data. Lead-lag studies using current data, of course, best justify current cash working capital needs. Use of studies based on older data need further justification. Concord's lead-lag study uses 1993 revenue and expense data for the purpose of calculating its allowance for cash working capital and fails to provide adequate justification for its failure to conduct a study with more recent data. Although lead-lag studies using prior year data can be used in some cases to support current cash working capital needs, Concord merely asserts in conclusory fashion that its study is still accurate because its operating conditions with limited exceptions have not changed since the preparation of its study.[331] Carriers must do more, however, than

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[327] *See 1997 Suspension Order* at ¶ 67.

[328] *See* 1997 Annual Access Filings, CC Docket No. 97-149, Order, DA 97-1413 (Com. Car. Bur. July 7, 1997).

[329] *1997 Designation Order* at ¶ 29.

[330] *Id.*

[331] Concord Direct Case at 1-2. Concord admits that it has changed its special access billing practices to AT&T and the other common carriers since completion of its 1994 lead-lag study. *Id* at 2. It now bills AT&T in advance rather than arrears and provides AT&T a single bill for both switched and special access. *Id.* Concord asserts that this change has a *de minimis* impact on its overall revenue lag since AT&T special access is

offer unsupported assertions that their operations have not changed. Concord does not provide any assurances, or any support therefor, that any of the key factors that could affect cash working capital have not changed. Thus, while Concord, in fact, states that some aspects of its billing practices have changed since its 1994 study, Concord does not assert, much less support, that other changes have not occurred concerning its billing practices for other common carriers or its vendors. In addition, Concord does not explain whether the period covered by prepaid expenses and accrued liabilities is still the same as it was in 1994. All of these variables could affect its cash working capital determinations. Therefore, the present record does not provide a basis for concluding that it has not experienced changes in its operations that would significantly affect its cash working capital needs. We are therefore unable to verify Concord's claim that these data are representative of its operations covered by its 1997 annual access tariff, and, accordingly, require Concord to utilize the standard 15-day allowance method to calculate its cash working capital.

C. Chillicothe

212. We similarly reject Chillicothe's study because it does not use current data and we are unable to verify that the older data are representative of the company's current operations. Although Chillicothe contends that the 1990 data used in its study are still current and that it has not experienced a dramatic change in revenues or expenses since it last conducted its lead-lag study,[332] Chillicothe does not provide an explanation or any documentation that suggests that a seven year old lead-lag study provides an accurate representation of its current operations.[333] Despite Chillicothe's assertions that it would be impractical and onerous to conduct a lead-lag study more frequently, Chillicothe has not provided any support for its view that the cost of a new study would be so great that it could affect its financial health. Thus, we are not convinced that the administrative cost of doing a new study would be prohibitive. Moreover, Chillicothe's assertion that the 1990 study still represents current needs is unsupported. Chillicothe does not explain whether any changes

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only approximately four percent of total interstate revenue. *Id.*

[332] Chillicothe Direct Case at 5.

[333] Chillicothe cites *Communications Satellite Corporation*, in which the Commission purportedly found reasonable a cash working capital study in use over a decade because it was based on the best information available on the company's cash working capital requirement. *Communications Satellite Corporation*, CC Docket 85-268, Phase II, Memorandum and Order, 3 FCC Rcd 7164 (1988)(*Communications Satellite Corporation*). That Order, however, was the result of an ongoing investigation into Comsat lasting from 1982 through 1988. By 1988, the Commission had a long history of reviewing Comsat's data and was extremely familiar with Comsat's operations and was able to determine that Comsat's data still accurately represented its current operations. *Communications Satellite Corporation*, 3 FCC Rcd 7164-68. Here, the Commission does not have such a history and does not have the past experience to draw upon to determine that Chillicothe's 1990 data are still accurate.

have occurred either in its billing practices or in the billing practices of its vendors. Nor does Chillicothe explain whether the period covered by prepaid expenses and accrued liabilities is still the same as it was in 1994. All of these variables could affect its cash working capital determinations. Therefore, the present record does not provide a sufficient basis for concluding that Chillicothe has not experienced changes in its operations that could significantly affect its cash working capital needs.

213. In addition, Chillicothe's lead-lag study is flawed because it includes a substantial retroactive adjustment to account for a large payment that it received in its April 1990 NECA settlement to true-up data from the 1989 and 1988 NECA settlement process. Nothing in the record or our experiences suggests that there is any significant correlation between retroactive adjustments, proposed by Chillicothe on account of NECA late payments, and current expenses. We, therefore, conclude that the retroactive adjustments are not a reasonable indicator of the cash working capital currently needed by Chillicothe to finance its day-to-day operations.[334] Accordingly, we find that Chillicothe erred in including the retroactive adjustments in its lead-lag study.

214. We further find that Chillicothe's lead-lag study is flawed because it fails to use the same base period to compute revenue lags for individual revenue categories. Chillicothe uses data for a seven-month period (from April 1990 - October 1990) to compute its operator services revenue lag, data for a three-month period (from July 1990 - September 1990) to compute its Inmate Services revenue lag and its Other Common Carrier (OCC) Traffic Sensitive revenue, and data for the entire year to compute its rent revenue lags. Chillicothe asserts that it is permitted to use representative months in conducting its lead-lag study because the Commission contemplated that carriers that use the Simplified Formula Method may use periods of less than one year as part of their methodology.[335] Although the Commission permits carriers to use the Simplified Formula Method with periods of less than one year, the period used must be consistent throughout the study.[336] We find that, without consistent and representative study periods, we are unable to determine whether Chillicothe's study is valid.

215. Finally, Chillicothe's lead-lag study is inadequate because it fails to explain its revenue lags for NECA settlement prior period adjustments (PPA), OCC traffic-sensitive

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[334] *See 1993 Access Tariff*, 12 FCC Rcd at 6308-09 (finding that Roseville erred by including a retroactive NECA adjustment in its lead-lag study to support its 1993 Access Tariff).

[335] Chillicothe Rebuttal at 3. The Commission developed the Simplified Formula Method of calculating cash working capital to reduce the expense and burden on carriers that would otherwise have to complete a full lead-lag study. *See* note 326, *supra.*

[336] *See In the Matter of 1993 Access Tariff Filings,* CC Docket 93-193, Memorandum Opinion and Order, 12 FCC Rcd 6277, 6308 (1997) (*1993 Access Tariff Order).*

revenue, rent receivable, AOS inmate services, and operator services, as required by the *1997 Designation Order*.[337] Chillicothe provides the standard methodology used by all carriers to compute revenue lags in a lead-lag study but does not offer any more explanation as to why its revenue lags are larger than those of other carriers. Accordingly, we have no basis upon which to determine whether or not the revenue lags associated with these categories are reasonable under the circumstances.

216. Without current data, consistent and representative study periods, and explanations of extensive lags, we are unable to conclude that Chillicothe's study is valid. Thus, we require Chillicothe to use the standard 15-day allowance to compute its cash working capital rather than the composite net lag of 46.68 days it proposed.

D. Roseville

217. We reject Roseville's study because it does not use current data and we are unable to verify that the older data are representative of a company's current operations. Although Roseville contends that the 1994 data used in its study are still current and that it has not experienced a dramatic change in revenues or expenses since it last conducted its lead-lag study,[338] Roseville does not provide an explanation or any documentation that suggests that its study provides an accurate representation of its current operations. As with Concord and Chillicothe, Roseville's unsupported assertion that its operations have not changed does not provide sufficient record support to conclude that 1994 data demonstrate its current cash working capital needs. Therefore, we are not assured that it has not experienced changes in its operations that would significantly affect its cash working capital needs.

218. We further find that Roseville's lead-lag study is flawed because it fails to use the same base period to compute revenue lags for individual revenue categories. Roseville uses data from April 1994 through March 1995 to calculate its NECA settlement amount revenue lag and data from calendar year 1994 to calculate its remaining individual revenue lags. As we stated above, the time period used must be consistent throughout the study period.

219. Additionally, Roseville's lead-lag study is flawed because its February 1995 NECA settlement amount includes a retroactive adjustment for unusually large settlement

[337] *1997 Designation Order* at ¶ 66. Chillicothe does not address this issue in its submissions.

[338] Roseville Direct Case at 26.

amounts spanning a 13-month period from January 1994 through January 1995.[339] As we stated above, retroactive adjustments do not correlate with current expenses and they are, therefore, not a reasonable indicator of cash working capital needed by Roseville to finance its current day-to day operations.

220. Collectively, these observations lead us to conclude that Roseville's lead-lag study cannot be used to compute its cash working capital allowance because the study produces an inaccurate estimate of its revenue requirement. We therefore require Roseville to utilize the standard 15-day allowance method to calculate its cash working capital rather than the composite net lag of 49 days it proposed.[340]

221. With regard to Roseville's statement that the Commission should accept studies supporting lags that are greater than 15 days, we note that we may accept individual lead-lag studies that yield net lags greater than 15 days, provided that the LEC supplies data that are (1) representative of its current operations; and (2) explain their proposed lag periods. Roseville, however, did not satisfy these requirements in this instance.

E. PRTC

222. PRTC's lead-lag study fails to justify an expense lag in excess of 15 days. PRTC seeks an allowance in its calculation of its cash working capital calculations to account for the time involved in waiting to receive revenues that were delayed as result of Puerto Rico's dispute resolution process. In the *1997 Designation Order*, the Bureau directed PRTC to explain fully the dispute process referenced in its Petition, the number of disputes PRTC handled in the 1994 calendar year, the length of time needed to resolve each dispute that year, the total amount of revenue associated with all disputes in that year, and the percentages of total revenue that this amount reflected in that year.[341] PRTC, however, does not provide adequate support for its assertion that the delays in receiving revenues due to the dispute

[339] Roseville did not explain why it chose to use NECA settlement amounts from April 1994 through March 1995 even though Roseville used 1994 data for the remainder of its study. However, its February 1995 settlement amount was uncharacteristically large in comparison to its other settlement amounts. Therefore, it appears that Roseville chose the study period of April 1994 through March 1995 to include the February 1995 settlement to inflate its revenue lag for its NECA settlement amounts.

[340] Because we are requiring Roseville to utilize the standard 15-day allowance, we need not address the issue of the lag days for State and Federal income taxes.

[341] *1997 Designation Order* at ¶ 65 *citing* PRTC Petition at 3-4. We requested that PRTC provide this information for the 1994 calendar year because PRTC's lead-lag study references that year.

resolution process create a long delay in receiving substantial revenues.[342] PRTC fails, for example, to respond to the *1997 Designation Order's* requirement that it provide the number of total disputes handled by PRTC. While PRTC states that it received approximately 12.6 million contacts from end users in 1994, it also states that this figure is based on the number of claims by end users and does not represent the number of total disputes handled by the company. According to PRTC, one contact or call to a customer service representative could involve multiple disputes or claims. Without the number of actual disputes or claims resolved, however, it is impossible for the Commission to verify the reasonableness of the average length of time that PRTC alleges it needs to resolve each case on a per-dispute basis and the amount of cash working capital PRTC alleges is necessary for this purpose. Additionally, under the simplified formula method, which was used by PRTC, carriers do not calculate individual revenue lags. Therefore, there is no indication of how PRTC's dispute process affects its revenue lag calculation.

223. In the *1997 Designation Order*, the Bureau also required PRTC to document and explain the 143-day expense lag for payments in lieu of taxes (PILOT).[343] PRTC does not do so. PRTC fails to state when it pays this expense to the Government of Puerto Rico and without the payment date, we cannot determine the appropriate lag for the PILOT expense. Moreover, we find that it is unreasonable for PRTC to include payment of federal taxes as one of its components of its PILOT expense lag, because PRTC maintains that it does not pay federal tax.

224. Finally, Commission rules require LECs, in conducting lead-lag studies, to separate revenues billed in advance from revenues billed in arrears because the lag times for the two categories are different.[344] In its study, PRTC uses the same average accounts receivables amount, which represents the amounts due from all customers, to determine the average revenue lag days for revenues billed in arrears and for revenues billed in advance.[345] PRTC's use of average accounts receivable does not provide an indication of which of those

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[342] In response to the *Designation Order,* PRTC provided the average length of time needed to resolve disputes, the amount of revenues involved, and the percentage of total revenue that this amount reflects. According to PRTC, the revenue involved in the disputes was $20,702.942 which is approximately 2.3 percent of PRTC's billed revenue for 1994. PRTC further maintains that, as a result, the dispute process may take anywhere from 90 to 120 days for sums less than $100 and between 30 and 45 days from sums over $100.

[343] Payment in Lieu of Taxes (PILOT) expense refers to a payment made by PRTC to the government of Puerto Rico. PRTC pays two types of PILOT expense. One mimics property taxes paid by non-government owned corporations and the other mimics gross receipts taxes paid by non-government owned corporations.

[344] 47 C.F.R. § 65.830(e)(1)(i-ii). There is a possibility that revenues billed in advance will generate a negative revenue lag.

[345] PRTC does not address this issue in its submissions.

accounts receivable were billed in arrears and which were billed in advance. Therefore, we are unable to determine whether the accounts receivable lag days is appropriate.

225. Collectively, these observations lead us to conclude that PRTC's lead-lag study cannot be used to compute its cash working capital allowance because the study produces an inaccurate estimate of its revenue requirement. We therefore require PRTC to utilize the standard 15-day allowance method to calculate its cash working capital rather than the composite net lag of 71.8 days it proposed.

F. Conclusion

226. We require PRTC, Chillicothe, Concord, and Roseville to utilize the standard 15-day cash working capital allowance method to calculate their cash working capital for the 1997-1998 Access year. To determine the carrier's working capital allowance under the standard 15-day allowance method, the carrier's total annual cash operating expenses must be divided by 365 days to determine the average daily cash operating expenses. A carrier's average daily cash operating expense must then be multiplied by the standard cash working capital allowance of 15 days to derive its cash working capital allowance. We order PRTC, Chillicothe, Roseville, and Concord to recalculate their cash working capital needs using the standard 15-day allowance and to calculate revised rates and appropriate refunds based on the difference between their initial calculations using their lead-lag studies and their calculations using the standard-15 day allowance.[346] Interest shall be computed on the basis of interest rates specified by the United States Internal Revenue Service.

IV. ORDERING CLAUSES

227. Accordingly, IT IS ORDERED, that, pursuant to Sections 4(i), 4(j), 201(b), 202(a), 203(a), 204(a), 205, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), 201(b), 202(a), 203(a), 204(b), 205, and 405, Southwestern Bell, GTE, U S WEST, NYNEX, and Sprint SHALL FILE REVISED RATES to be effective January 1, 1998, and SHALL ISSUE REFUNDS, plus interest, for the period from July 1, 1997 through December 31, 1997, reflecting adjustments to their Base Factor Portion revenue requirement forecasts as prescribed in Section II.A of this Memorandum Opinion and Order .

228. IT IS FURTHER ORDERED, that, pursuant to Sections 4(i), 4(j), 201(b), 202(a), 203(a), 204(a), 205, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), 201(b), 202(a), 203(a), 204(b), and 205, Ameritech, Bell Atlantic, BellSouth,

[346] We remind Chillicothe that our decision here in extends to its amended tariff, Transmittal No. 58 filed on November 14, 1997. *See* Chillicothe Telephone Company, Revisions to Tariff F.C.C.No. 1, DA 97-2505 (Com. Car. Bur. Rel. November 26, 1997).

Frontier, GTE, Nevada Bell, NYNEX, Pacific Bell, Rochester, SNET, Southwestern Bell, and U S WEST, SHALL FILE REVISED RATES to be effective January 1, 1998, and SHALL ISSUE REFUNDS, plus interest, for the period from July 1, 1997 through December 31, 1997, reflecting removal of equal access expenses as prescribed in Section II.B of this Memorandum Opinion and Order.

229. IT IS FURTHER ORDERED, that, pursuant to Sections 4(i), 4(j), 201(b), 202(a), 203(a), 204(a), 205, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), 201(b), 202(a), 203(a), 204(b), and 205, that GTE, Pacific Bell, and U S WEST SHALL FILE REVISED RATES to be effective January 1, 1998, and SHALL ISSUE REFUNDS, plus interest, for the period from July 1, 1997 through December 31, 1997, reflecting changes to their treatment of OB&C costs as prescribed in Section II.C of this Memorandum Opinion and Order.

230. IT IS FURTHER ORDERED, that, pursuant to Sections 4(i), 4(j), 201(b), 202(a), 203(a), 204(a), 205, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), 201(b), 202(a), 203(a), 204(b), and 205, that Concord, Chillicothe, Roseville, and PRTC, SHALL FILE REVISED RATES to be effective January 1, 1998, and SHALL ISSUE REFUNDS, plus interest, for the period from July 1, 1997 through December 31, 1997, reflecting adjustments to their cash working capital requirements as prescribed in Section III of this Memorandum Opinion and Order.

231. IT IS FURTHER ORDERED, that the investigation and accounting order imposed by the Common Carrier Bureau in CC Docket No. 97-149 with respect to the LECs specified in Appendix A for the designated issues as discussed herein IS TERMINATED as of January 1, 1998.

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas

Magalie Roman Salas
Secretary

List of Parties Filing Pleadings--APPENDIX A

Aliant Communications Company (Aliant)
Ameritech
AT&T
Bell Atlantic Corp./NYNEX (Bell Atlantic-North/ Bell Atlantic-South)
BellSouth Telecommunciations, Inc. (BellSouth)
Chillicothe Telephone Company (Chillicothe)
Concord Telephone Company (Concord)
Frontier Telephone Companies (Frontier)
GTE
MCI Telecommunciations Corp. (MCI)
Nevada Bell Telephone Company (Nevada Bell)
Pacific Bell Telephone Company (Pacific Bell)
Puerto Rico Telephone Company (PRTC)
Rochester Telephone Corp. (Rochester)
Roseville Telephone Company (Roseville)
Southern New England Telephone Company (SNET)
Southwestern Bell Telephone Company (SWBT)
Sprint Local Telephone Companies (Sprint)
U S WEST Communications, Inc. (US WEST)

Statistical Appendix-- APPENDIX B

I. Introduction

An issue in this proceeding is whether price cap LECs have accurately forecast their per-line Base Factor Portion (BFP) revenue requirements (RRs). Underestimates of per-line BFP RR can result in per minute carrier common line (CCL) rates that are too high. This can increase rates for interexchange calls. Under some circumstances, price cap LECs have an incentive to understate per-line BFP RR because this allows them to earn higher common line revenues than our price cap rules would otherwise permit.

This Appendix presents an analysis of whether some LECs have a consistent downward bias in their forecasts of per-line BFP RRs. The analysis is based upon forecast and actual data provided by the price cap LECs for tariff years 1991/92 through 1996/97 and calendar years 1991 through 1996. The LECs also provided their forecasts for 1997/98. Section II describes the data and adjustments to the data. Section III contains analyses of the data, and Section IV presents recommendations concerning prescription for those LECs whose forecast methodology is determined to be biased and to result in charges that are unlawful. Attached to the end of this Appendix are Tables A1-A12.

II. Data

We used two different data series: one for purposes of testing for possible bias in LECs' forecast methods, and the other for purposes of developing Commission forecasts of per-line BFP RRs for those LECs with biased forecast methodologies.

A. Data Used for Testing for Bias

We based our tests for bias on tariff year actual and forecast BFP RRs and lines provided by the LECs. The only adjustment made to actual BFP revenues was to exclude amounts collected in New York for the state gross income (receipts) tax, as requested by NYNEX.[347] We adjusted the LEC BFP RR forecasts for 1996/97 for the additional revenues resulting from the implementation of the OB&C and Payphone Orders and additional lines resulting from the Payphone Order. Because the OB&C Order was in effect for two months of tariff year 1996/97, we estimated the additional OB&C revenues as 2/12 of each LEC's forecast amount for tariff year 1997/98. Similarly, we estimated 2.5 months' payphone revenues as 2.5/12 of the 1997/98 forecast amount, and added payphone lines using 1996 Armis data weighted by 2.5/12. The only other adjustment to a BFP RR forecast was to increase U S WEST's 1994/95 forecast to reflect a change in depreciation noted in

[347] The amounts of these adjustments are shown in Table A3.